United Nations DP/FPA/2009/4

**Executive Board of the United Nations Development Programme and of the United Nations Population Fund**

Distr.: General
27 March 2009

Original: English

**Annual session 2009**
26 May to 5 June 2009, New York
Item 15 of the provisional agenda
**UNFPA – Evaluation Policy**

# UNITED NATIONS POPULATION FUND

# UNFPA EVALUATION POLICY

Report of the Executive Director

*Summary*

Pursuant to decision 2008/12 of the Executive Board, the Executive Director is pleased to present the UNFPA evaluation policy. Evaluation at UNFPA is a comprehensive function that reinforces accountability, oversight and learning in order to support management decisions and enhance programme effectiveness. The policy provides an overarching framework of the principles, roles and responsibilities for evaluation in UNFPA. UNFPA will report regularly to the Executive Board on evaluation. The evaluation policy does not include the operational details of its implementation, which UNFPA will address through internal guidelines on evaluation.

Guided by General Assembly resolution 62/208, the evaluation policy focuses on strengthening national evaluation capacity by using participatory and inclusive approaches, and by supporting country-led evaluations. UNFPA seeks to harmonize and align the policy with the evaluation efforts of United Nations partners through the use of common approaches and joint evaluations. The evaluation policy is consistent with and complements the UNFPA oversight policy (DP/FPA/2008/14) and the UNFPA accountability framework (DP/FPA/2007/20), with the goal of further strengthening results-based management by building a robust evaluation function in UNFPA.

The Division for Oversight Services, in line with the UNFPA oversight policy and the UNFPA accountability framework, will continue to undertake independent evaluations and provide quality assurance of evaluations. Country offices, regional offices and divisions at headquarters will manage decentralized evaluations. The evaluations of the Division for Oversight Services and the decentralized evaluations provide the necessary coverage for a comprehensive system of evaluation that reinforces accountability and learning. All UNFPA managers are accountable for ensuring that evaluations are performed in accordance with this policy and that the necessary follow-up is undertaken.

09-28282 (E) 200409

# I. BACKGROUND

1. Pursuant to decision 2008/12 of the Executive Board, the Executive Director is pleased to submit to the Executive Board the UNFPA evaluation policy. The purpose of the policy is to establish a common institutional basis for the UNFPA evaluation function and enhance the quality of evaluations. The policy will contribute to ensuring the independence of the evaluation function and will guide the conduct of evaluations for organizational learning, management for results, and accountability.

2. The evaluation policy responds to General Assembly resolution 62/208 on the triennial comprehensive policy review of operational activities for development of the United Nations system (hereinafter referred to as the triennial comprehensive policy review), which calls for greater ownership by national governments of the evaluation of development results; greater efforts to build national evaluation capacity; and the promotion of collaborative approaches to evaluation among United Nations organizations. The evaluation policy will guide UNFPA efforts to build partnerships and strengthen the capacity of programme countries to take ownership of the evaluation of development results.

3. The evaluation policy also responds to the 2005 UNFPA independent evaluation report entitled "Strengthening evaluation for improved programming: UNFPA evaluation quality assessment", which stressed that evaluation should better serve the needs of management. According to this meta evaluation, the UNFPA evaluation approach was narrowly focused on accountability. In response to those findings, the UNFPA evaluation policy underscores that evaluation is a comprehensive function that incorporates accountability, oversight and learning.

4. The evaluation policy is consistent with and complements the UNFPA accountability framework (DP/FPA/2007/20) and the UNFPA oversight policy (DP/FPA/2008/14). The evaluation policy supports UNFPA efforts to strengthen results-based management, as reinforced by the UNFPA strategic plan, 2008-2011 (DP/FPA/2007/17).

5. In addition to strengthening and complementing existing accountability and oversight mechanisms, the purposes of the evaluation policy are to: (a) increase the use of results in decision-making by management; (b) improve programme effectiveness; (c) strengthen national evaluation capacity; (d) contribute to the systematic utilization of evaluation findings; and (e) support organizational learning. Specific roles and responsibilities for evaluation are delineated in the policy, with the goal of increasing the use of evaluation results in planning and implementing UNFPA activities.

6. Section II of the policy defines key terms and concepts used in the policy. Section III lists the principles that guide the policy. Based on the principles in section III, section IV delineates roles and responsibilities for evaluation. Section V provides guidance on capacity development and resources, and section VI addresses the utilization of evaluation results and reporting. Section VII focuses on the review of the policy, and section VIII provides the elements of a draft decision for consideration by the Executive Board.

## II. DEFINITIONS

7. UNFPA adheres to the United Nations Evaluation Group definition of evaluation as "an assessment, as systematic and impartial as possible, of an activity, project, programme strategy, policy, topic, theme, sector, operational area, institutional performance, etc. It focuses on expected and achieved accomplishments, examining the results chain, processes, contextual factors and causality, in order to understand achievements or lack thereof. It aims at determining the relevance, impact, effectiveness, efficiency and sustainability of the interventions...An evaluation should provide evidence-based information that is credible, reliable and useful, enabling the timely incorporation of findings, recommendations and lessons into decision-making processes" (paragraph 1.2, *Norms for evaluation in the United Nations system*, United Nations Evaluation Group, 2005).

8. In accordance with the norms outlined by the United Nations Evaluation Group, evaluation differs from monitoring and other review and oversight functions, such as audit and inspection. Monitoring is the gathering of data on the results of programmes, in order to assess, on an ongoing basis, the extent to which a programme is on track and achieving adequate progress towards expected targets and outcomes.

9. A prerequisite for evaluation is a coherent results framework. Results frameworks are developed when interventions are planned; they include statements of the expected results and the logical sequence of those results. They indicate how the activities undertaken lead to the expected results, and identify relevant performance indicators, baselines and targets.

10. The following definitions, drawn from the UNFPA oversight policy, will apply to the UNFPA evaluation policy:

(a) Accountability is the obligation to demonstrate that work has been conducted with agreed rules and standards and to report fairly and accurately on performance results vis-à-vis mandated roles and/or plans.

(b) Oversight is the general process of review, monitoring, evaluation, supervision, reporting and audit of UNFPA programmes, activities, policy implementation and results. This is to ensure organizational, financial, operational and ethical accountability, effectiveness of internal controls, and the prevention of fraud and malpractice.

(c) Independence means that the necessary conditions of integrity and freedom from interference in determining the scope of, performing the functions for, and communicating the findings of internal audit, evaluation and investigation activities have been met. Any independent individual involved in such activities should have an impartial, unbiased attitude and avoid conflicts of interest.

(d) Transparency is a process by which reliable and timely information about existing conditions, decisions and actions relating to UNFPA activities is made accessible, visible and understandable to Member States.

(e) A thematic evaluation is an independent assessment of selected aspects or cross-cutting issues in different types of interventions that are crucial to UNFPA.

(f) Assurance is defined as the objective examination of evidence for the purpose of providing an independent assessment on risk management, control or governance processes for the organization.

## III. PRINCIPLES

11. The following principles guide the UNFPA evaluation policy:

(a) In accordance with the triennial comprehensive policy review, evaluations will focus on performance in achieving development results. The evaluation function is undertaken with a view to strengthening national evaluation capacity and increasing the participation of national counterparts through inclusive and participatory approaches.

(b) Evaluation at UNFPA focuses on accountability, oversight and learning. Evaluation is utilization-focused, and provides credible information to support decision-making by management, and policy and programme improvement. It informs planning, budgeting, implementation and reporting.

(c) Management will ensure that evaluation is an integral part of the organizational standards of UNFPA, as emphasized by the triennial comprehensive policy review. As a part of a broader culture of accountability and managing for results, UNFPA seeks empirical evidence on the results achieved, using lessons learned to improve programme effectiveness.

(d) Evaluation at UNFPA will be carried out with the highest level of objectivity and impartiality. Centralized evaluations by the Division for Oversight Services achieve this through its structural independence from management. Management will not restrict the scope, content and recommendations of evaluation reports. Decentralized evaluations will ensure objectivity and impartiality through a variety of mechanisms built into the evaluation plans, such as the provision for external review experts, advisory committees and the use of independent evaluators.

(e) Managers are accountable for implementing the evaluation policy and ensuring that necessary follow-up is undertaken. UNFPA will continue to report on the progress of evaluation, in line with its accountability framework and oversight policy.

(f) The norms and standards of the United Nations Evaluation Group will guide UNFPA evaluations. UNFPA seeks to harmonize and align its policy with the evaluation efforts of United Nations system partners and other development partners through country-led evaluations and joint evaluations.

(g) Management will ensure that adequate resources are allocated for evaluations, including human and financial resources. Funds to undertake evaluations are built into the design of country, regional and global programmes.

## IV. ROLES AND RESPONSIBILITIES

12. In accordance with paragraph 39 of the UNFPA oversight policy, the Executive Board will monitor UNFPA performance on evaluation through regular reports on evaluation submitted to the Executive Board by the Executive Director and the Division for Oversight Services.

13. The Division for Oversight Services conducts independent evaluations in accordance with the UNFPA oversight policy. The Division for Oversight Services also provides oversight for all evaluations, including monitoring and assessing the quality of evaluations.

14. Management is responsible for systems of governance, risk management, the internal control framework, the evaluability of programmes, the measurement of performance, and the evaluation of results and impact. Managers of all divisions and offices will undertake decentralized evaluations in their respective areas. For decentralized evaluations, UNFPA will put in place the necessary arrangements to ensure objectivity and impartiality.

The roles and responsibilities of the different levels of management are as follows:

(a) The Executive Director of UNFPA assumes overall responsibility for evaluation, and ensures an enabling environment for evaluation where planned evaluations are conducted and the findings utilized in programme design and delivery.

(b) The Executive Committee, chaired by the Executive Director, approves evaluation plans, monitors their implementation, monitors follow-up on evaluation recommendations, and uses evaluation findings to inform its decision-making.

(c) The Programme Division coordinates evaluation planning in UNFPA; fosters evaluation professionalism through advice, guidelines, training, and the sharing of best practices; ensures the quality of the results frameworks of programmes; ensures that UNFPA evaluation activities build national evaluation capacity; develops links with the United Nations Evaluation Group and related United Nations evaluation activities, including the coordination of joint evaluations; and ensures that evaluation findings are integrated into strategic policy and planning.

(d) Regional offices ensure that evaluations are undertaken within their programmatic framework, that the evaluations are professional and of high quality, and that information from monitoring and evaluation is used to inform their decision-making. The regional offices are accountable for: (i) providing support and technical advice to the monitoring and evaluation activities of country offices through regional monitoring and evaluation advisers; (ii) reporting annually to the Executive Committee on the quality of evaluation in the region; (iii) ensuring

that, at the programme planning stage, adequate results frameworks are developed for programmes, including a national evaluation capacity building component; (iv) ensuring the full and active participation of national counterparts in the evaluation process; and (v) seeking increased involvement in joint evaluations with partners, donors and programme countries.

(e) Country offices will ensure that evaluations are undertaken with their implementing partners and within the programmatic framework. Country offices are accountable for: (i) carrying out country-level evaluations consistent with the United Nations Development Assistance Framework; (ii) ensuring professionalism in the evaluations; (iii) ensuring that information from monitoring and evaluation is used to inform their decision-making; (iv) ensuring that, at the programme planning stage, adequate results frameworks are developed for programmes, including a national evaluation capacity-building component; (v) ensuring that there is full and active participation of national counterparts in the evaluation process; and (vi) seeking increased involvement in joint and country-led evaluations with partners, donors and programme countries.

## V. CAPACITY DEVELOPMENT AND RESOURCES

15. UNFPA evaluations are carried out in a manner that enhances national capacity through the participation of governments and key stakeholders in evaluations, through support for country-led evaluations, and through the use of national evaluation systems. Capacity-building initiatives include guidance, training, and the sharing of good practices and lessons learned. In addition, UNFPA will work actively with United Nations organizations and other partners to strengthen national capacity for evaluations, including country-led evaluations and joint evaluations, as well as evaluations undertaken in the context of the United Nations Development Assistance Framework. UNFPA will provide the operational details of evaluation plans in its internal guidelines on evaluation.

16. To respond appropriately to the needs of programme countries, UNFPA will strengthen its capacity in evaluation through monitoring and evaluation advisers at country, regional and global levels. Regional monitoring and evaluation advisers support capacity-building in country offices and among programme countries. UNFPA will mainstream evaluation in the organization and ensure that programme and technical staff are knowledgeable about evaluation principles. Partnerships with evaluation networks, professional bodies, national and regional institutions, United Nations partners and other development partners will further reinforce evaluation capacity.

17. In accordance with the UNFPA programming guidelines, evaluation is required in every country, regional and global programme; therefore, evaluations are included in respective programme budgets. In order to achieve cost-effectiveness, UNFPA will strive to undertake coordinated and joint evaluations with national partners, United Nations system partners and other development partners.

## VI. UTILIZATION AND REPORTING

18. UNFPA seeks to strengthen evaluation in order to strengthen accountability for results and ensure that evaluation findings are used to inform decision-making by management and contribute to more effective programming. As stipulated in the UNFPA accountability framework, managers are required to prepare management responses to evaluation recommendations and undertake the necessary follow-up. The Executive Committee, chaired by the Executive Director, will monitor progress in implementing evaluation recommendations. UNFPA will disseminate lessons learned from evaluations through knowledge management platforms.

19. The Executive Director reports regularly to the Executive Board on evaluation. In accordance with the UNFPA oversight policy, the Division for Oversight Services submits a report to the Executive Board on evaluation activities every two years. The oversight policy provides additional assurance of evaluations through the Audit Advisory Committee and the United Nations Board of Auditors.

20. Evaluations carried out in UNFPA will be assembled centrally, made available to management, and shared as widely as possible with external parties. UNFPA will share country evaluation reports with relevant national governments. In accordance with the UNFPA accountability framework and the UNFPA oversight policy, the Executive Director will normally disclose reports to the public, while exercising discretion in protecting the legitimate rights of programme countries.

## VII. REVIEW OF THE POLICY

21. UNFPA will review the evaluation policy at the mid-point of the current strategic plan and at the end of each strategic plan. The review will seek to extract lessons and make improvements in the policy.

## VIII. RECOMMENDATION

**22. The Executive Board may wish to take note of the UNFPA evaluation policy contained in the present document (DP/FPA/2009/4) and provide guidance to UNFPA.**

United Nations DP/FPA/2009/5

Executive Board of the
United Nations Development
Programme and of the
United Nations Population Fund

Distr.: General
8 April 2009
Original: English

**Annual session 2009**
26 May to 5 June 2009, New York
Item 10 of the provisional agenda
**UNFPA – Internal audit and oversight**

# UNITED NATIONS POPULATION FUND

## UNFPA INTERNAL AUDIT AND OVERSIGHT ACTIVITIES IN 2008

Report of the Executive Director

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List of Acronyms

| | |
|---|---|
| AAC | Audit Advisory Committee |
| Atlas | PeopleSoft™ ERP financial system |
| AWP | Annual workplan |
| BSB | Biennial support budget |
| BSC | Balanced scorecards™ |
| COSO | Committee of Sponsoring Organizations of the Treadway Commission |
| DHR | Division for Human Resources (UNFPA) |
| DOCO | United Nations Development Operations Coordination Office |
| DOS | Division for Oversight Services (UNFPA) |
| ERM | Enterprise risk management |
| ERP | Enterprise resource planning |
| FAFA | Financial and Administrative Framework Agreement |
| HACT | Harmonized approach to cash transfers to implementing partners |
| HLCM | United Nations High-level Committee on Management |
| IAS | Internal audit services |
| ICF | Internal control framework |
| ICPD | International Conference on Population and Development |
| IIA | Institute of Internal Auditors |
| IPSAS | International Public Sector Accounting Standards |
| JPO | Junior Programme Officer |
| M&E | Monitoring and evaluation |
| MDTF | Multi-donor trust fund |
| MIS | Management information system |
| MoU | Memorandum of understanding |
| NEX | National execution |
| OMP | Office management plan |
| PAD | Performance appraisal and development |
| RBB | Results-based budgeting |
| RBM | Results-based management |
| RIAS | Representatives of the Internal Audit Services of the United Nations Organizations and Multilateral Financial Institutions |
| SWAps | Sector-wide approaches |
| TCPR | Triennial comprehensive policy review of operational activities for development of the United Nations system |
| UNDG | United Nations Development Group |
| UNEG | United Nations Evaluation Group |

# I. INTRODUCTION

1. The Executive Director is pleased to present to the Executive Board a summary of the internal audit and oversight activities of UNFPA in 2008. The report responds to Executive Board decisions 2008/37, 2008/13, 2007/29 and 2006/13. This report is presented at a time when UNFPA faces several challenges, including a restructuring process; the adoption of the International Public Sector Accounting Standards (IPSAS); and a global financial crisis that has adversely affected both poverty and development aid. Thus, this report seeks to inform the Executive Board of the most significant risks and systemic issues affecting the work of UNFPA in an environment marked by tremendous challenges to meeting the commitments of the Programme of Action of the International Conference on Population and Development (ICPD). The present report must be read in the context of significant UNFPA achievements during the past years, including the independence of the Division for Oversight Services (DOS) consistent with the International Professional Practices Framework of the Institute of Internal Auditors (IIA); the creation of an Audit Advisory Committee (AAC); the development and approval of a comprehensive accountability and oversight framework, soon to be complemented by an evaluation policy establishing clear lines of responsibilities for accountability; and the initiation of enterprise risk management (ERM) based on an internal control framework (ICF) compliant with best international practices. It is important to keep in mind that the findings of internal audit and oversight reflect the entities which are exposed to high risk within UNFPA, since the Fund focuses its internal audit and oversight on selected offices with high risk conditions. Furthermore, it is important to note that change in an organization's culture and managers' behaviour requires time, patience and perseverance and that the present review of internal audit issues should not in any way diminish the recognition of the strong efforts and the achievements of managers in UNFPA.

2. The present report is structured as follows: following the introduction, section II presents a review of oversight activities completed in 2008; section III provides an overview of the risk universe of UNFPA and of its dynamics; section IV presents an analysis of emerging systemic issues that may affect UNFPA, especially in view of the challenges mentioned above. In addition, the status of disclosure of internal audit reports is reported in this section; section V focuses on change management and risk management; section VI contains the conclusion; and section VII provides a recommendation. Annex I contains figures; and as requested by the Executive Board in decision 2008/37, annex 2 provides the annual report of the Audit Advisory Committee and annex 3 contains the UNFPA management response to the annual report of the Audit Advisory Committee. In addition, UNFPA will provide a comprehensive management response, made available on the UNFPA Executive Board website.

# II. OVERSIGHT ACTIVITIES IN 2008

## A. Country office and headquarters engagements

### 1. Audits

3. The UNFPA Division for Oversight Services carried out 15 audits. These audits were carried out in four countries in the Africa region, four countries in the Latin America and the Caribbean region, one country in the Arab States region, one country in the Eastern Europe and Central Asia regions, and two countries in the Asia and the Pacific region. The division also carried out three audits at headquarters (see figure 1).

## 2. Methodologies

4. In 2008, DOS undertook a review and revision of the methodology for the evaluation aspects of its oversight work. The review identified opportunities to improve the alignment of DOS methods with the UNFPA oversight policy (approved by the Executive Board at its second regular session in September 2008) to strengthen assurance with regard to the relevance, effectiveness and efficiency of UNFPA programmes. In addition, the review highlighted the benefits of a more transparent, replicable approach to country office oversight missions so that the evidence for DOS recommendations is clear to all parties.

5. The revised methodology focuses on assessing risk in three areas: relevance, strategic alignment, and the quality of monitoring and evaluation (M&E). For each area, tests are defined. Each test includes standards for meeting expectations, exceeding expectations and falling short of expectations together with guidance for DOS staff about how evidence to support the rating for each test should be gathered. All UNFPA staff members have Intranet access to the tests, the standards, and descriptions of the relevant information and evidence to be used in determining a business unit's score for each test. This revised approach has been tested in 2008 and will be used in all UNFPA oversight missions in 2009.

6. During 2008, the web-based application used to monitor audit recommendations was enhanced. After each oversight report is released, recommendations are entered into this application that enables UNFPA country offices, regional offices and headquarters divisions to more easily document and monitor actions taken to implement audit recommendations. The follow-up of audit recommendations is a shared responsibility between DOS and UNFPA management.

## 3. Staffing

7. DOS consists of a directorate headed by a Director with a Deputy Director, a Special Assistant to the Director and two support staff, and the following three branches: (a) the Evaluation Branch; (b) the Internal Audit Branch; and (c) the Investigation Branch. Authorized posts in the Evaluation Branch include one Chief, three Evaluation Advisers and two support staff; in the Internal Audit Branch, one Chief, seven Audit Specialists and two support staff; and in the Investigation Branch, one Chief and one Investigation Specialist. In addition, one audit specialist was seconded in 2007 by the Swiss Agency for Development and Cooperation for three years.

8. The two posts of auditors in Africa were converted to international posts with New York as the duty station. Recruitment exercises for audit specialists and evaluation advisers were carried out during the fourth quarter of 2008 and will continue into 2009. As a result of the staff shortage, consultants were hired to complement staffing on several missions.

9. The Investigation Branch became functional in the last quarter of 2008. The two Evaluation Adviser positions are expected to be filled by the middle of 2009. Table 1 below summarizes the authorized professional posts and vacancies in 2008.

Table 1: 2008 DOS staffing (biennial support budget)

| | Number of professional posts | Person-months | Person-months vacant | Percentage vacant |
|---|---|---|---|---|
| Director & Deputy Director | 2 | 24 | 3 | 13 |
| Internal Audit Branch | 8 | 96 | 18 | 19 |
| Evaluation Branch | 4 | 48 | 13 | 27 |
| Investigation Branch | 2 | 24 | 21 | 88 |
| Total for DOS | 16 | 192 | 55 | 29 |

## 4. Resources

10. DOS receives funding from two sources: (a) the UNFPA biennial support budget (BSB); and (b) UNFPA programme resources (global and regional programmes). In 2008, the DOS budget amounted to $4,455,599 with $3,376,754 (76 per cent) from BSB funds and $1,078,845 (24 per cent) from the UNFPA global and regional programme resources.

## 5. Investigations

11. The Investigation Branch was established in 2008. In addition to conducting investigations prompted by requests from management, the Ethics Office, and whistle-blowers, the Investigation Branch provides strategic guidance and leadership on assessing fraud risks in UNFPA operations at headquarters and in the field and in conceptualizing the Fund's approach to fraud prevention and detection. The Branch will be instrumental in aligning the Fund's internal control framework to internationally recognized standards for both preventing and addressing fraud and corruption.

12. The Investigation Branch maintains an integrity hotline to enable UNFPA staff and people outside of the organization to report any instances of misconduct, such as wrongdoing, malfeasance, fraud, corruption, mismanagement, and abuse of authority. Investigations are conducted independently and findings are submitted to UNFPA management for appropriate action.

13. The Investigation Branch coordinated with the UNFPA Ethics Office and the UNFPA Division for Human Resources (DHR) in the production of an e-learning module entitled "Ethics, integrity, and anti-fraud: Setting the standards at UNFPA", launched in February 2009. All UNFPA staff members are required to complete this module.

14. The Investigation Branch has recently invested in computerized forensic technology in order to search, collect, preserve and analyse digital information in order to support or verify facts and/or allegations in future investigations.

15. Number of cases. A total of 20 complaints were received by the Investigation Branch. By 31 December 2008, 70 per cent of complaints had been closed. The five major categories of complaints received in 2008 were procurement (35 per cent), abuse of authority (25 per cent), other finance (20 per cent), property theft/misuse (15 per cent) and travel (5 per cent).

16. Results and follow-up. Of the 20 complaints received in 2008, eleven were substantiated after being investigated by DOS and formal action has been taken by management; three were found to be unsubstantiated and did not require further action by management; and the remaining six complaints are still being investigated.

17. Significant investigation cases in 2008 included: loss of $148,600 in a country office as a result of processing duplicate fraudulent payment vouchers; manipulation of procurement processes and theft of commodities by staff in a country office resulting in a loss of $52,025; loss of $45,540 in a country office where staff manipulated national execution (NEX) audit reports and appear to have manipulated procurement processes; and misappropriation of $25,000 in fuel vouchers in a country office.

## B. Establishment of the Ethics Office

18. The UNFPA Ethics Office was established in January 2008. The following are the key activities conducted by the Ethics Office in 2008:

(a) Two rounds of financial disclosures were concluded. Statements were received from all those covered under the programme with respect to the 2006 and 2007 calendar years and 100 per cent compliance was achieved for both years. There were 293 statements filed for the 2006 calendar year and 349 statements for the 2007 calendar year;

(b) Consultations with staff from the field and headquarters were organized to get feedback on the draft ethics code for United Nations personnel which was forwarded by the Secretary-General to the heads of the United Nations agencies for system-wide consultation within their respective agencies;

(c) The first online course titled "Ethics, integrity and anti-fraud: Setting the standards at UNFPA" was developed and launched in February 2009. This is a mandatory course with a built-in tracking system and all staff members are expected to complete the course by the end of June 2009;

(d) Sessions on ethical behaviour in the workplace were included in the agenda of the leadership programme for middle-level managers and in the induction workshop for newly recruited Junior Programme Officers (JPOs) and National Officers. Individual briefings were also conducted for first-time UNFPA Representatives and Deputy Representatives prior to their assuming their posts.

The Ethics Office also responded in confidence to a total of 35 specific requests for advice from individual staff members. Of this number, 13 inquiries related to conflict of interest issues and 22 inquiries to other ethics-related issues.

## C. Inter-agency cooperation and support to United Nations reform

19. The Division for Oversight Services actively supported inter-agency cooperation and United Nations reform and participated in several formal working groups within the United Nations Development

Group (UNDG), United Nations Development Operations Coordination Office (DOCO) and professional networks including the Representatives of the Internal Audit Services of the United Nations Organizations and Multilateral Financial Institutions (RIAS), the United Nations Evaluation Group (UNEG), and the Conference of Investigators of the United Nations system.

20. Outputs and achievements of this inter-agency work included the following:

(a) Preparation of a memorandum of understanding (MoU) and standard administrative arrangements for multi-donor trust funds (MDTFs) and United Nations system coordinated programmes and funds (One UN funding);

(b) The framework for auditing United Nations system coordinated programmes, including investigation issues, supported by multiple agencies;

(c) Preparation of a framework for cooperation between internal audit services (IAS) on issues associated with the audit of the harmonized approach to cash transfer to implementing partners (HACT) in programme countries;

(d) Initiation of harmonization of audit findings and causes of risks for the purpose of reporting to governing bodies;

(e) Contributions by DOS staff, specifically on evaluation, to several UNEG working groups.

## III. RISKS AND UNFPA

### A. Risk classification

21. The risk classification adopted by UNFPA has been extensively described in an earlier report, DP/FPA/2006/4. In accordance with the request made by the Executive Board in decision 2006/13, the same approach has been followed in the present report. Further refinements have been made in the linkages between risks, deficiency category and causes and in the statistical design of the risk model (annex 1: Risk groups and descriptions, in document DP/FPA/2008/11, provides an overview of the risk linkages).

22. From 2005, DOS established its own risk model as a basis for preparing the annual plan of oversight engagements. The model is used as a strategic oversight planning tool and in no way substitutes for an ERM approach. In accordance with COSO guidance, DOS believes that ERM is a necessary process to help the organization identify and evaluate its significant exposures. DOS continues to highlight the need for the wider ERM process and supports the organization by contributing to a better understanding and improvement of risk management and control systems. UNFPA management has taken action to establish ERM, reflecting its acceptance of responsibility for the Fund's risk management and control processes.

### B. Risk model

23. As noted in earlier reports submitted to the Executive Board (DP/FPA/2006/4 and DP/FPA/2007/14), the purpose of the risk model is to: (a) assess the risk profiles of UNFPA entities and to decide on the priorities of the audit and oversight missions to be undertaken in a given year; and (b) keep track of the Fund's risk universe. The quantitative aspects of the model serve as the basis for further

analysis, as well as for further discussion with management, the AAC and the United Nations Board of Auditors.

24. The model uses the same set of variables as used in 2007, 2008 and 2009. The availability of three annual series of data provides an overview of trends.

### 1. Risk model results

25. The risk model gives three types of results: an entity-specific risk assessment based on the variables (see figure 2); a change in the entity's risk compared with the preceding year (see figure 3); and a global risk assessment based on the aggregation of variables for each risk category (see figure 4).

#### (a) UNFPA risk universe

26. The risk universe of UNFPA for 2008 includes 136 entities (country offices, subregional offices and country technical services teams). The risk model produces a mapping of entities according to the likelihood of risks and their potential impact based on 2008 available data (see figure 2). The regional profiles of the risk universe of UNFPA are relatively stable over time indicating that country offices in the Africa and the Asia and the Pacific regions are more at risk in comparison with other country offices. This result is consistent with the challenges faced by the countries of these two regions in implementing development programmes. The model also provides insight into the dynamics of risk levels affecting country offices (volatility). The model indicates that in 2008 more business units may have experienced a decrease in risk exposure compared to previous years. This finding, based on sparse data, correlates with findings from oversight engagements in the field. If this trend persists over several years, it would indicate that efforts undertaken by country offices to improve management practices and pay greater attention to internal controls, coupled with senior level management efforts to promote accountability, are yielding results. Figure 3 illustrates the change in risk exposure amongst country offices.

#### (b) Global risk assessment

27. As indicated in document DP/FPA/2006/4, the risk model provides a global risk assessment. With the availability of comparable data for 2005 and 2006, the model also provides some indication of trends. Since 2005, the global risk profile of UNFPA suggests increasing external and relationship risks, a marginal decrease in the category of process risks, and no significant differences in people and technology risks. The changes in external and relationship risks reflect increasing challenges in security and safety faced by United Nations personnel worldwide, and the tensions for UNFPA to work under new aid modalities while satisfying accountability requirements. This tension is unlikely to go away and its management will require an intensified commitment to evidence-based programming, results-based management (RBM) and shared ownership of these vital tools with implementing partners. This recommendation is in line with the observations contained in the UNFPA Financial report and audited financial statements for the biennium ended 31 December 2007 and Report of the Board of Auditors (A/63/5/Add.7) pertaining to national execution. General Assembly resolution 62/208 on the triennial comprehensive policy review of operational activities for development of the United Nations system (TCPR) also provides a useful reference framework for addressing this issue.

28. Even though the model shows a marginal decrease in likelihood and impact of the process risk category, persistently high-level risks in this category indicate that UNFPA needs to implement more effective and efficient internal controls and improve business processes and compliance with controls. This

improvement could be made by further simplifying administrative rules and streamlining management processes. With the goal of strengthening accountability, UNFPA has introduced new management tools including results-based budgeting (RBB), balanced scorecards (BSC), office management plans (OMP), and new programme modalities. Maximizing the risk management benefits of these tools will require revision of the internal control framework in conjunction with a thorough review of policies and procedures with a view to eliminating obsolete and redundant requirements. Management is undertaking this work within the change management efforts arising from ongoing reorganization.

29. The likelihood of people and information technology risks remain low. However, the results of the audit of the Division for Human Resources indicate that there is room for improvement. The continued challenges in managing vacancies in representative, deputy and assistant representative posts expose the affected offices to increasing risks.

30. The upgrade of the enterprise resource planning (ERP) system, Atlas (PeopleSoft™), was successfully completed in January 2009. However, the audit of the security of the system carried out by the UNDP Office of Internal Audit and Investigations found that excessive access rights had been granted to some UNDP Atlas users, which could result in inappropriate access to financial and human resource functions and information, and which could subsequently have an adverse effect on the completeness and accuracy of this data. DOS, in collaboration with the UNFPA Division for Management Services, will continue consultations with UNDP to verify that these deficiencies have been corrected.

## IV. SIGNIFICANT OVERSIGHT ISSUES

### A. Issues from country office and headquarters engagements

31. Twenty-one reports were issued in 2008. Eighteen of these assessed UNFPA country offices and three assessed headquarters activities. The three headquarters audits/reviews were the audit of DHR, the review of Atlas risks and controls, and an assessment of the Management Information Services (MIS) Branch. It is important to recall that the country office assessments represent the entities with the highest risk, selected based on the risk model approved by the Executive Board.

32. Among the 18 country offices assessed, internal controls and compliance with financial, administrative, human resources, information technology and programming requirements were deemed to be satisfactory in five, partially satisfactory in 10 and unsatisfactory in three.

33. The significant oversight issues identified from DOS country office engagements conducted during the last two years are summarized in table 2 below.

Table 2: Significant oversight issues by risk areas in the audited country offices*

| Risk area | Audit issue prevalence 2007 | Audit issue prevalence 2008 |
|---|---|---|
| External | | |
| • Incomplete implementation of security assessments/relocation plans | Occasional | Occasional |
| Relationship | | |
| • Weak programme design and weak results-based framework: poorly defined programme baselines, outputs or activities. Limited programme coordination and collaboration diminished leverage and impact of activities. Country programme focused on outputs, not outcomes. Poor linkage between annual workplan (AWP) activities and budgets | Very common | Very common |
| • Monitoring and evaluation weaknesses | Common | Occasional |
| • Programme implementation delays as a result of procedural bottleneck | Occasional | Occasional |
| • Inadequate capacity assessments of implementing partners | Occasional | Occasional |
| • Qualified NEX audit reports, some of poor quality. Some reports include significant unsupported expenditure and others indicate that the partners had unsatisfactory accounting systems in place | Common** | Very common** |
| • Lack of accountability leading to poor or incomplete follow-up of the NEX audit issues | Occasional | Common |
| • Underdeveloped risk management of new aid modalities – e.g., sector-wide approaches (SWAps) | Occasional | Occasional |
| Process | | |
| • Weaknesses in financial, fiduciary and budgetary responsibilities | Occasional | Common |
| • Poor management of operating fund account balance ageing | Common | Occasional |
| • Lack of timeliness and accuracy in project financial reporting | Common | Common |
| • Disbursement weaknesses | Occasional | Common |
| • Implementation and documentation of prior audit recommendations not completed | Very common | Common |
| People | Common | Common |
| • Persistent delays and long lead times in completing recruitment | | |
| • Selection of consultants not done on a competitive basis | Common | Common |
| • Improper employment contracts | Common | Occasional |
| Information technology | | |
| • Individual access rights in Atlas not in line with the internal control framework | Common | Common |
| • Inadequate controls over data security and recovery | Common | Common |

*Note: The audited country offices are those in high risk circumstances and thus are not representative of all country offices.

** Note: The 2007 and 2008 audit issues relating to NEX in table 2 (above) are based on a retrospective review of past NEX management, and therefore reflect the NEX status from the previous financial years, 2005 and 2006, audited in 2007 and 2008, respectively.

34. The significant oversight issues identified from DOS headquarters engagements conducted during the last two years are summarized as follows: (a) under the category of people risk -- partial organizational succession plan and human resource review, key controls for payroll functions not documented and

corporate payroll changes not always reconciled; and (b) under the category of information technology risk -- improper delegation of authority of Atlas access.

## B. Follow-up of recommendations

35. DOS continued to monitor the work done by UNFPA regional offices and divisions towards the implementation of audit recommendations from reports reviewed by the UNFPA Operations Committee and the Audit Advisory Committee. The implementation of previous recommendations is also reviewed during all audit assignments and an update on the implementation of recommendations is included in the audit working papers.

Table 3: Implementation status by year of audit/oversight recommendations as at 31 December 2008

| Year | Number of reports issued | Total number of recommendations | Closed | In progress | Action not started* |
|---|---|---|---|---|---|
| 2006 | 41 | 2,308 | 2,181 (94 per cent) | 104 (5 per cent) | 23 (1 per cent) |
| 2007 | 18 | 1,052 | 916 (87 per cent) | 96 (9 per cent) | 40 (4 per cent) |
| 2008 | 20 | 877 | 415 (47 per cent) | 298 (34 per cent) | 162 (18 per cent) |
| Total 3 years | 79 | 4,237 | 3,512 (83 per cent) | 498 (12 per cent) | 225 (5 per cent) |

*Note: The category 'Action not started' comprises recommendations where no action has started, or where implementation has begun but no update of this fact has been provided.

36. Table 3 summarizes the status of implementation of the oversight recommendations reported by the audited business units in the database. However, the verification of the status of recommendations during subsequent audits of the same entities shows that country offices report an implementation rate higher by 19 per cent when compared with the implementation rate reported by auditors. It should be noted that at times there is a difference between the time the data is entered in the system and the time when the auditors verify implementation. The conclusion remains that audited entities must be more systematic in implementing recommendations and in reporting actions taken to address the recommendations in the database.

## C. National execution

37. For 2007, total NEX expenditures amounted to $150 million, of which $110 million (or 73 per cent) was required to be audited in 2008. These expenditures related to 1,136 NEX projects in 107 countries. As of 31 December 2008, UNFPA had received 1,043 (92 per cent) of the audit reports encompassing NEX expenditures totalling $102 million. Of those received, DOS reviewed a representative sample of 100 audit reports (or 9.6 per cent).

38. The sample review conducted by DOS covers three areas: (a) audit outcome -- DOS reviewed the audit findings contained in the audit reports, the opinion and the possible impact on the overall management and implementation of NEX projects; (b) audit scope -- DOS reviewed the compliance with

the terms of reference given to NEX auditors; and (c) audit administration -- DOS reviewed the NEX audit exercise with respect to the quality of the NEX auditors and how it was administered by the responsible country office and business units.

39. The results of this review (figure 5) showed that the distribution of the ratings regarding audit administration was comparable to the previous year. The audit scope improved, in that the audit coverage was increasingly aligned with the audit terms of reference established by UNFPA. Audit administration improved marginally from last year. This indicated the better responsiveness by country offices to UNFPA requirements in terms of improving overall administration of the NEX audits.

### 1. Overall results for the NEX audits of 2007

40. Figure 6 provides an overview of the issues leading to 2007 NEX qualified audits. The picture presented is comparable to the results for 2006.

41. As illustrated in table 4 (below), there was an improvement in the overall audit outcome, with a significant reduction in the total number of qualified audit reports for 2007. The NEX auditors issued unqualified opinions on 865 audit reports (or 83 per cent) with a total of 178 audit reports (or 17 per cent) receiving a qualified or disclaimer of opinion. Based on the information available on the aggregate external audit reports, DOS quantified the direct financial impact of audit qualifications to be $1.1 million, or approximately 1.1 per cent of the total audited NEX expenditures. This would suggest that the financial impact of these audit opinions has declined from 2006 to 2007 (table 4) indicating a possible decrease in the financial risks.

42. Overall, the improved performance was partially attributed to UNFPA management making NEX an organizational priority in 2008 and to the fact that responsibility for the number of qualified NEX audit reports was included in the performance appraisal of country representatives.

Table 4: Prevalence of qualified NEX audit reports and their financial impact

| | Year 2006 | | Year 2007 | |
|---|---|---|---|---|
| | Number | Percentage qualified out of total number received | Number | Percentage qualified out of total number received |
| Number of qualified reports | 324 | 28 per cent | 178 | 17 per cent |
| | | Percentage of audited NEX | | Percentage of audited NEX |
| Qualified/emphasis of matter | $6,026,048 | 5.5 per cent | $1,002,543 | 0.9 per cent |
| No opinion/disclaimer | $147,730 | 0.1 per cent | $126,372 | 0.1 per cent |
| Total financial impact | $6,173,778 | 5.6 per cent | $1,128,915 | 1.1 per cent |

## D. Emerging issues

### 1. Aid modalities

43. In 2008, DOS commissioned thematic evaluations to assess UNFPA participation in joint programming and SWAps. Both of these ways of working emerge as part of the ongoing evolution of aid modalities. The evaluations highlighted the need to ensure that country offices participating in joint programming and SWAps are appropriately supported by regional offices and headquarters in two key ways: ensuring that risks associated with the new aid modalities are identified, managed and mitigated; and that the UNFPA experiences with new aid modalities and the lessons learned are shared to facilitate policy development and organizational learning.

### 2. Evidence-based programming

44. Evidence-based programming can enhance UNFPA effectiveness. Evidence-based programming describes a commitment to implementing what has been shown to work and emphasizes accountability mechanisms and the measurement of results. In the case of innovative programmes, a key dimension is ensuring that monitoring and evaluation are adequate to assess whether the innovative intervention achieves the desired outcomes for its intended beneficiaries. Given the Fund's growing commitment to evaluating programmes and implementing what works, evidence-based programming will enable the Fund to be a more effective development agency. Trend analysis of the quality of evaluations completed by UNFPA indicates that many of the evaluations fall short of recognized international quality standards. The weaknesses in M&E noted earlier are proposed to be addressed through the establishment of M&E advisers in all regional offices to accelerate progress towards evidence-based programmes that meet the needs of people they serve.

45. In light of both the opportunity and risks associated with evidence-based programmes, UNFPA has developed an evaluation policy (see DP/FPA/2009/4). The evaluation policy will provide a stronger foundation for evidence-based programming and by extension, stronger accountability mechanisms within the Fund. The evaluation policy would be complemented by capacity development for Fund staff and implementing partners and supported by management tools focused on programmatic results.

46. Advancing evidence-based programming requires a two-track approach to capacity development within the Fund and among implementing partners: equipping people with the skills and information they need to design, implement and evaluate programmes; and further expanding a 'culture of evidence' that combines the commitment to results to evidence of what works, as experienced by national and community stakeholders.

### 3. International Public Sector Accounting Standards

47. The International Public Sector Accounting Standards are high-quality, independently developed accounting standards considered as the best practice by public sector organizations. The United Nations High-level Committee on Management (HLCM) has endorsed the adoption of IPSAS for UNFPA and partner agencies by 2010 following the adoption of General Assembly resolution 60/283 in 2006. As a result, an extensive implementation exercise is under way at UNFPA to phase in the adoption of the standards with full implementation by 2010.

48. It is important that UNFPA prepare and apply an IPSAS implementation plan that addresses both accounting and operational risks.

49. For 2008, UNFPA had planned to implement two IPSAS standards: revenue and expense recognition. While UNFPA began moving to the accrual basis of accounting for expenses, it was unable to adopt the revenue standard due to the need for United Nations system-wide consensus. The adoption of this standard has been deferred to early 2010 by when the IPSAS Board is expected to have provided technical advice on the issue.

### 4. Harmonized approach to cash transfers

50. The adoption of the harmonized approach to cash transfers to implementing partners continues to be a challenge across the whole United Nations system, as no agreement has yet been reached in the United Nations audit community on a consistent approach to auditing its implementation. The two key issues are: (a) how to validate the "micro-assessment" and "macro-assessments" of partners' internal control frameworks and capacity; and (b) how UNFPA can provide adequate assurance that the money transferred to national implementing partners is used for the intended purpose. During 2009, DOS will continue to work with other United Nations agencies to develop a common framework which establishes the necessary procedures and scope for obtaining such assurance.

## E. Compliance with the oversight policy

### 1. Disclosure of internal audit reports

51. As of January 31, 2009, no request for disclosure has been received and, thus, no internal audit report has been disclosed.

### 2. Single audit principle

52. In 2003, the United Nations Secretariat and the European Commission signed a Financial and Administrative Framework Agreement (FAFA) for the purpose of establishing "a partnership in order to help achieve the Millennium Development Goals". The financial control clause agreed upon by both institutions in 1994 was included mutatis mutandis as an annex to the FAFA. Due to the European Commission's requirement to verify the uses of its contributions, a clause mentions, inter alia, that "the EC may undertake, including on-the-spot, checks related to the operations financed by the EC". These are referred to as verification missions. The Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency has pointed out that this clause constitutes a violation of the provisions of Article XII of the Financial Regulations and Rules of the United Nations on external audit, and in particular, financial regulation 12.6, which provides that the Board of Auditors shall be solely responsible for the conduct of audits (single audit principle). The Comptroller of the United Nations Secretariat, acting on behalf of United Nations organizations including the funds and programmes, agreed with the European Commission that the "EC verification missions may sample transactions per key process (procurement; recruitment, including payroll; disbursements; budget management; logistics; and reporting) per project as relevant to the project funded by the EC", but that this would not constitute an audit, which remains the purview of the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency. Because of the 2003 FAFA that also binds UNFPA, management had to allow the European Commission auditors to conduct verifications in several country offices, the Copenhagen office and at headquarters for several European Commission-funded

projects during 2008. UNFPA has expressed its concerns that these European Commission verification missions could conflict with the single audit principle as mentioned above and with provision IV.D of the UNFPA oversight policy (see DP/FPA/2008/14). UNFPA has recommended that the United Nations Comptroller facilitate a meeting among all interested parties, in particular the European Court of Auditors and the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency, to reach definitive agreement on the way forward.

## V. CHANGE MANAGEMENT AND RISK MANAGEMENT

53. When the Executive Board adopted decision 2007/43 approving the UNFPA organizational structure (see DP/FPA/2007/16 and its corrigendum DP/FPA/2007/16/Corr.1), the Board recognized the need for a more suitable structure for UNFPA that would enable the Fund to respond more effectively to the needs of countries and of those ultimate beneficiaries mentioned in the Fund's mission statement. The revised organizational structure includes strengthened country offices supported by newly created regional offices.

54. The restructuring of UNFPA is a complex devolution combining deconcentration (a term which in a governmental context refers to the process by which the agents of central government control are relocated and geographically dispersed) and decentralization (a term which in a governmental context refers to the transfer of powers from central government to lower levels in a political-administrative and territorial hierarchy). At UNFPA, the deconcentration has been implemented through the relocation of former geographical divisions from UNFPA headquarters in New York to the respective regional "United Nations hubs" with both technical and programmatic functions. This physical relocation complements the decentralization that already existed through the delegation of authority by the Executive Director to UNFPA country representatives for all matters pertaining to implementation of country programmes approved by the Executive Board.

55. The reorganized structure being implemented may lead to fragmentation and thus increase exposure to all categories of risks. Fragmentation, if it were to occur, would be particularly challenging in light of deficiencies in RBM, evidence-based programming, national execution modalities, human resources management and administrative and financial matters. UNFPA needs to incorporate its internal control framework within an ERM framework to satisfy its internal control needs and to move toward an ERM process. This process would help UNFPA maintain institutional coherence and cohesion while taking advantage of the opportunities of the new structure for increasing the effectiveness of its efforts on behalf of its ultimate beneficiaries. No risk model, irrespective of its sophistication, could provide as much reliable information as a comprehensive ERM system. UNFPA needs to focus on this matter in 2009 and 2010 while consolidating the implementation of its new organizational structure.

## VI. CONCLUSION

56. UNFPA is going through a period of increased exposure to risks. The combination of a new structure and an increasingly complex and volatile environment requires internal adjustments to address existing challenges and prevent greater vulnerability.

57. The present report identifies 11 significant oversight issues as follows: (a) programme design and results-based frameworks are challenged vis-à-vis requirements of the new aid environment, particularly within the context of the Accra Agenda for Action focus on development effectiveness; (b) programme/project monitoring and evaluation quality, reliability and utilization; (c) national execution; (d)

systemic and organization-wide risk management: (e) implementation of new structure; (f) segregation of duties and roles in ERP; (g) compliance with organizational operational guidelines; (h) unsupported expenditures; (i) organizational succession plan; (j) IPSAS implementation; and (k) procurement.

58. All of these issues can and will be addressed through the adoption of a clearer and more comprehensive internal control framework and the implementation of ERM. Now is the opportune time for UNFPA to consolidate the changes arising from its reorganized structure, integrating risk management into business processes and further focusing on results.

59. Effectively addressing today's challenges requires the cooperation of all stakeholders and development partners. In particular, in the spirit of General Assembly resolution 62/208 on the triennial comprehensive policy review of operational activities for development of the United Nations system, the collaboration and backing of all implementing partners and the Member States is essential. The present report on oversight and internal audit activities should be read in the larger context of implementing the ICPD Programme of Action and its impact on people. Strengthening internal controls is motivated not only by the desire to maintain the organization's reputation and the ability to mobilize funding, but also inspired by the duty of UNFPA to fulfill its mandate and to improve the quality of life of women, men and young people around the globe, especially those who are vulnerable, marginalized and disadvantaged by poverty, natural or other disasters and/or humanitarian situations.

## VII. RECOMMENDATION

**60. The Executive Board may wish to take note of the present report (DP/FPA/2009/5) and provide guidance to UNFPA.**

ANNEX 1: FIGURES

Figure 1: Internal audit activities

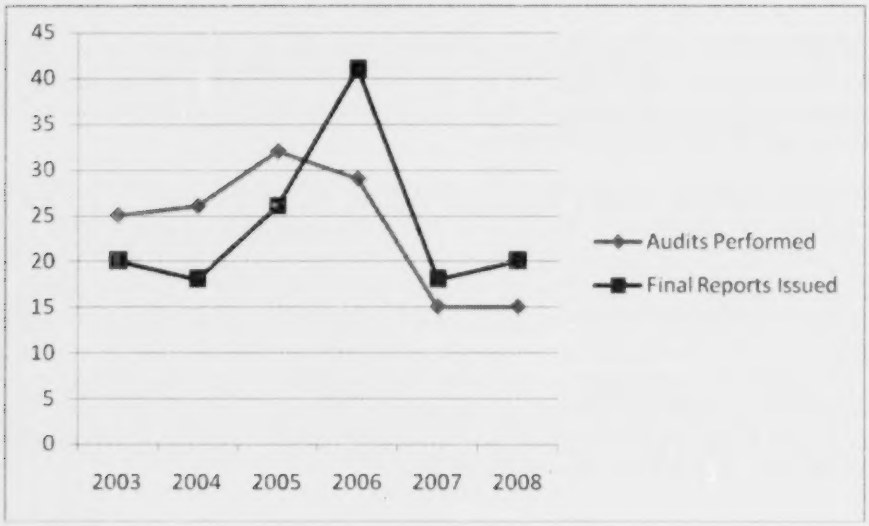



Figure 2: Risk universe of UNFPA country offices

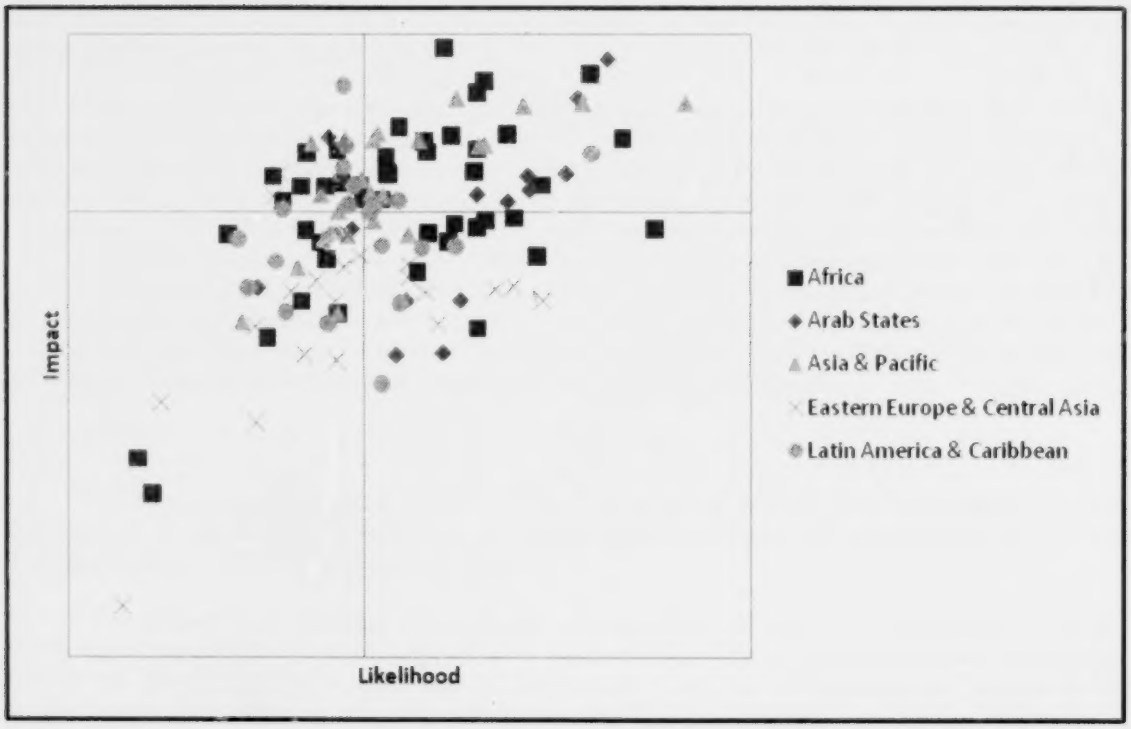


Figure 3: Volatility of the risk universe in UNFPA

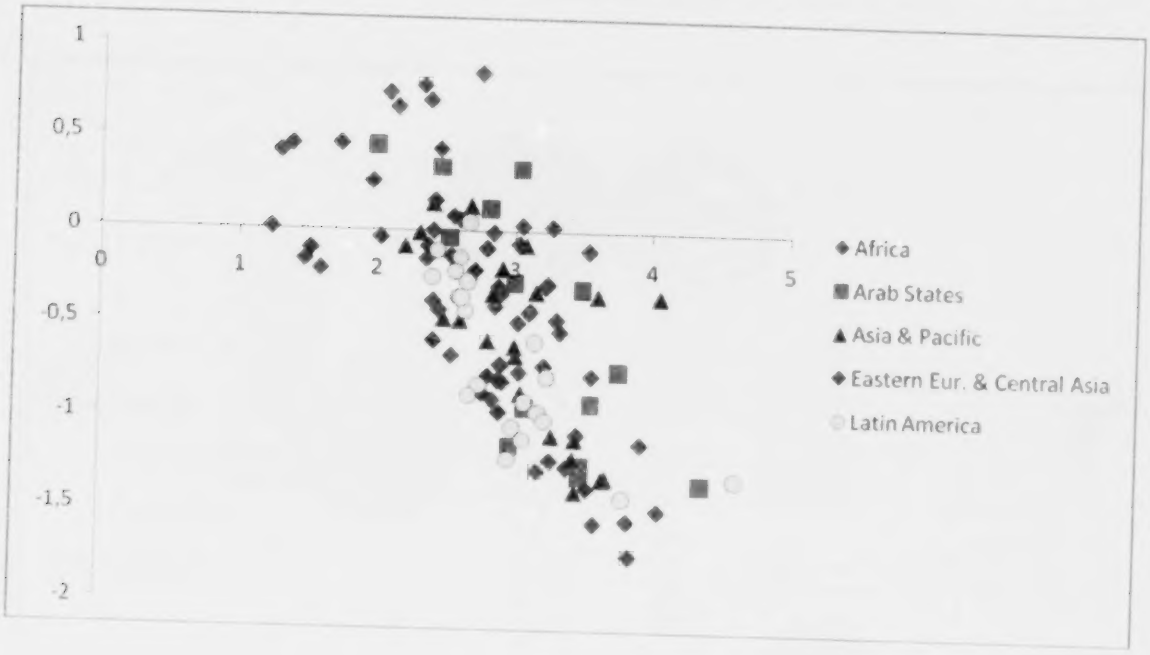


Figure 4: Organizational risk profile of UNFPA

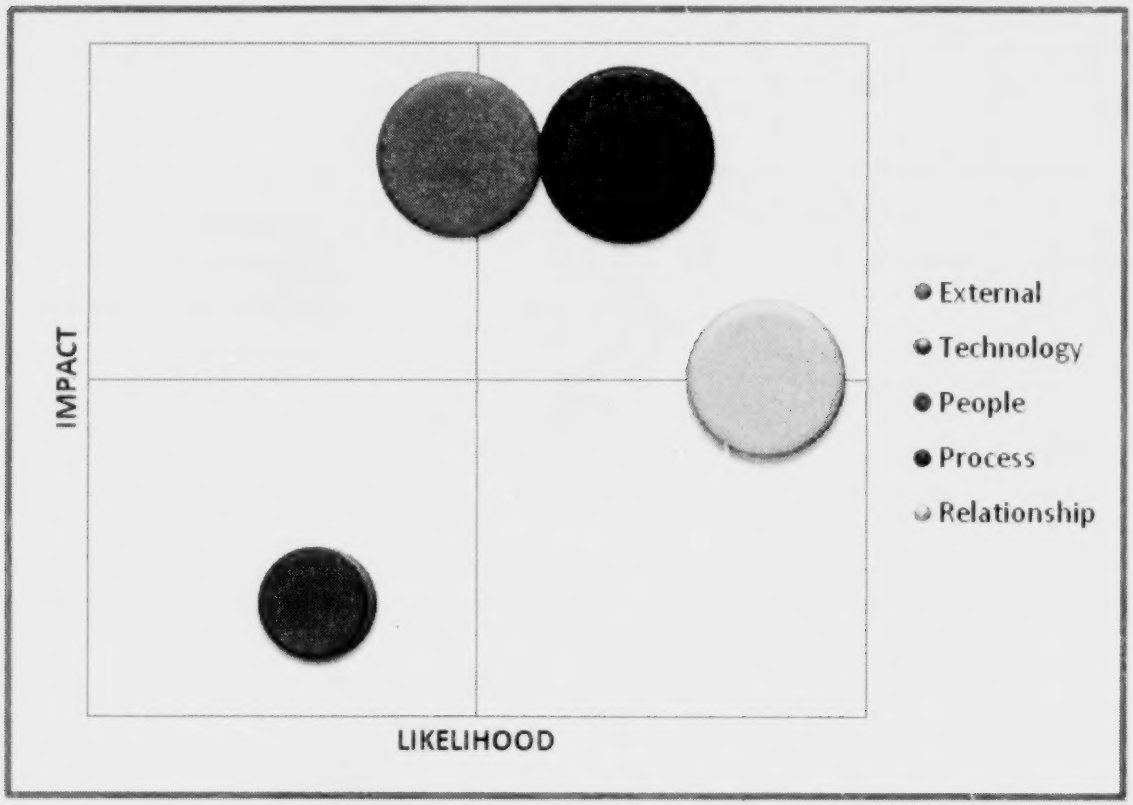


Figure 5: Review of NEX audits conducted in 2008 covering 2007

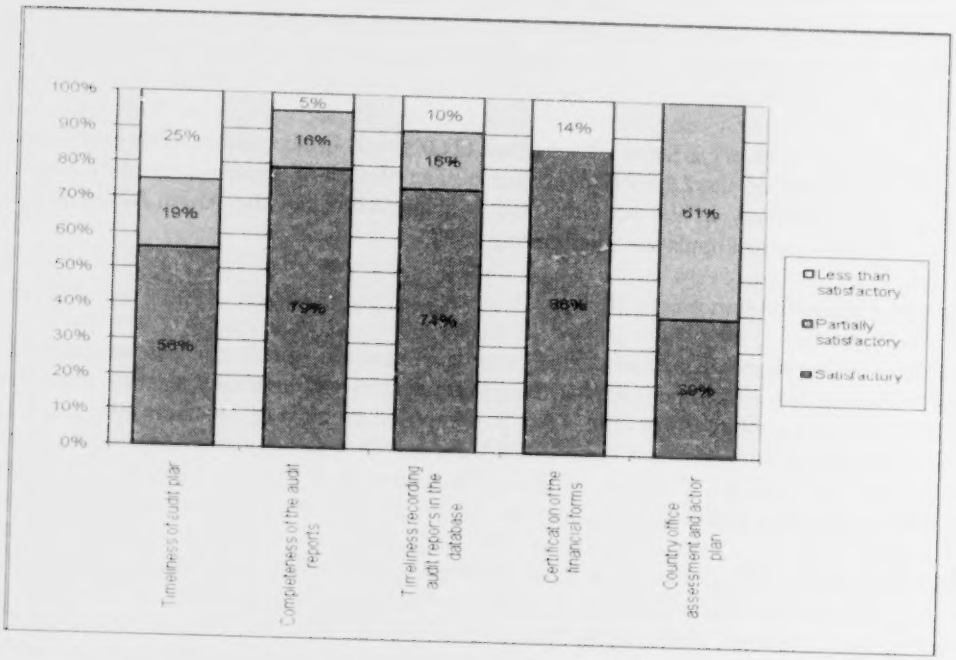
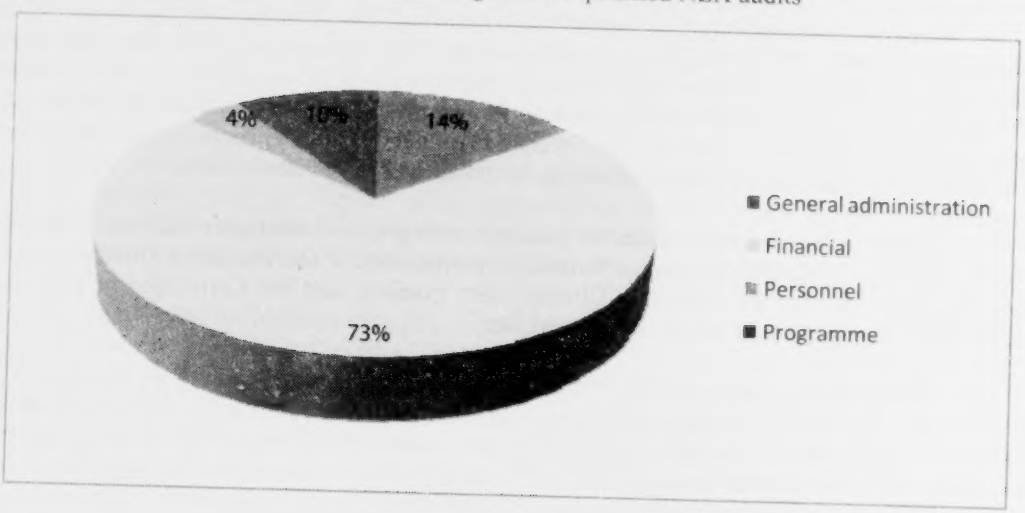



Figure 6: Issues leading to 2007 qualified NEX audits



## ANNEX 2: ANNUAL REPORT OF THE AUDIT ADVISORY COMMITTEE

United Nations Population Fund
Audit Advisory Committee
2008 Annual Report to the Executive Director

Purpose

1. Pursuant to item 14 of its terms of reference (TOR), and in accordance with paragraph 14 C of section IV, subsection F of the UNFPA oversight policy, this third report to the UNFPA Executive Director provides a summary of the activities and strategic advice of the Audit Advisory Committee (AAC) of the United Nations Population Fund during 2008.

Audit Advisory Committee activities in 2008

2. Committee members: In January 2008, after an extensive search and assessment process, the Committee recommended a fifth member, Mr. Hugo Luppi, who was appointed to the Committee by the Executive Director in February 2008. The AAC is composed entirely of members who are external to UNFPA, and are therefore independent from UNFPA and its administration and management. Committee members possess the required expertise in risk management and control, financial management and reporting, and development and programme matters.

3. Meetings: The AAC held seven official meetings in 2008, three in-person meetings (in January, June and October) and four teleconferences (in April, November and two meetings in December). UNFPA participants in the meetings included the Executive Director, the two Deputy Executive Directors, programme and operational senior management, as relevant, the Director of the Division for Oversight Services (DOS), and the external auditors. As required, the AAC met without management present and had separate in-camera meetings with the Executive Director, the Director of DOS, and the external auditors. During the June AAC meeting, the Committee held a joint half-day meeting with the Audit Advisory Committee of the United Nations Development Programme (UNDP) to share issues of common interest relating to interdependencies between UNFPA and UNDP. The Chair of the UNFPA AAC also attended the UNDP/UNFPA Executive Board annual session in June 2008 in Geneva. In addition to its formal meetings, Committee members continued their internal consultations and deliberations, document review, and provision of advice to UNFPA management via telephone and e-mail interaction.

4. Reporting: Minutes from the committee meetings were prepared and approved. In accordance with Item 13 of the AAC TOR, the Committee formally reported back to the Executive Director after each meeting. Briefing notes for the Executive Director were prepared and the Committee or Chair either briefed the Executive Director in person or by telephone.

5. Assessment of the Committee's effectiveness: The Committee undertakes an annual self-assessment exercise to confirm the appropriateness of its TOR and assess its effectiveness. The Committee also makes recommendations, as necessary, during each meeting and follows up periodically on the implementation of those recommendations by UNFPA management. Of the recommendations made by the AAC during 2008, most are either implemented or in the process of being implemented.

6. Performance assessment of the Director of the Division of Oversight Services: In accordance with its TOR, the AAC via its Chair provided formal feedback to the Executive Director on the performance of the Director of DOS and written input to the UNFPA performance appraisal and development system.

7. Field visits: To augment the Committee's understanding of the UNFPA mission and restructuring efforts, three of the AAC members participated in field visits to strengthen their knowledge of UNFPA operations. The Chair visited the UNFPA country offices in India, Uganda and the United Republic of Tanzania; another member also visited the India country office with the Chair; while another member visited the Ghana country office. In total, Committee members have devoted over seven person days to on-site activities in country offices. With the concurrence of the UNFPA Executive Director, AAC members plan to visit additional field locations in 2009.

8. External auditor coordination and communication: The AAC meets regularly with the UNFPA external auditor, the United Nations Board of Auditors, to share relevant information and understand strategies implemented to ensure overall audit coverage of UNFPA, which includes the work performed by DOS. The Committee had substantive discussions with representatives of the Board of Auditors at each of its in-person meetings and at its December 17 teleconference.

Audit Advisory Committee strategic advice in 2008

9. Issues of concern identified by the AAC, along with the strategic advice provided to the Executive Director and UNFPA senior management in 2008, are summarized below. The AAC thanks UNFPA management for its receptivity to the Committee's advice and the Fund's positive action to address the issues.

10. UNFPA is undergoing an internal multilayered transformation. In addition to implementing its new organizational structure and ensuring that the restructuring supports United Nations reform, UNFPA is undergoing significant revisions to its enterprise resource planning system (Atlas), and its financial policies and practices to align with the International Public Sector Accounting Standards (IPSAS) – all within an often uncertain and increasingly complex external environment. Changing conditions in the internal and external environment of UNFPA create challenges in the area of human resource management and operational relationships, as well as with regard to implementing partners and other donor agencies.

11. The AAC recognizes that the UNFPA has made substantial progress in realizing its reorganization, addressing to a great extent its internal human resource and administrative challenges, and ensuring substantive programme results are achieved by focusing on accountability within UNFPA and in its partnerships. The AAC commends UNFPA for its continued efforts in this respect.

12. Atlas, the enterprise resource planning system of UNFPA, is administered by UNDP. The AAC regularly discusses the critical services provided by UNDP and its Atlas system functionality. In October, the AAC was advised that UNDP had given notice to UNFPA that the Atlas system would be shut down for at least one, and possibly two weeks at the end of 2008; and that downtime periods might occur later, if the process schedule at the end of 2008 was not successful. The AAC noted its concerns to the Executive Director, as follows:

- UNDP provides a critical function to UNFPA, and as such, any downtime has a serious impact on UNFPA - not only in terms of actual downtime, but also the cost to UNFPA to arrange a work-around as a result;

- A shut down of this magnitude is not typical and questions arise as to whether Atlas may have more issues associated with its functionality than UNDP might have communicated before, thus reducing UNFPA confidence in the system;

- No action appears to have been initiated by UNDP to compensate UNFPA for this loss of service, which would be a normal practice for private sector service providers and be included in the service provider's contract.

The AAC recommended that the Executive Director communicate the AAC concerns to UNDP management. At the same time, the Chair of the AAC communicated the concerns to the Chair of the UNDP AAC. The AAC also recommended that UNFPA develop a risk management plan relating to the Atlas conversion.

13. The AAC is regularly updated on progress in UNFPA restructuring. As noted above in paragraph 10, the multilayered transformation of UNFPA underscores the importance of comprehensive succession and workforce planning as part of the Fund's human resource strategy and business continuity planning. Future-oriented planning of this nature would contribute to ensuring that UNFPA continues to deliver quality services and is a trusted partner for programme countries in the current environment of change. The AAC supports the additional policies and other actions put in place by UNFPA management to mitigate the risks identified, including the appointment of an Executive Coordinator, Change Management and Business Continuity. The AAC has suggested that more attention be focused on the human resource dimension of change and organizational continuity. As expected, during the AAC field visits, operational staff expressed concerns and requested clarity with regard to roles and responsibilities among headquarters, regional, subregional and country offices.

14. With respect to restructuring, the AAC has noted that DOS is proposing to conduct an audit of the restructuring process in 2010. The Committee believes that DOS could play a more prominent role with respect to UNFPA restructuring by advising on an ongoing basis whether the overall internal control framework is appropriate and recommending improvements or refinements that could be implemented immediately.

15. The AAC is briefed regularly on progress relating to the adoption of IPSAS by UNFPA. The AAC recognizes the UNFPA-wide implications of the implementation of IPSAS, both on financial reporting and the underpinning financial policies, as well as on organizational management and culture. The AAC has recommended that an IPSAS implementation plan be prepared that addresses both accounting and operational risks and identifies relationships with other UNFPA initiatives such as Atlas upgrades and restructuring. The AAC has also suggested that UNFPA seek more involvement from the Board of Auditors in advising on IPSAS implementation.

16. In accordance with the AAC TOR, the Committee is expected to "review policies significantly impacting financial management and reporting; the internal audit, investigation and evaluation functions; and the effectiveness of UNFPA systems of internal control and accountability." In this respect, the AAC has reviewed and made recommendations on various policies, as noted. The AAC has also reviewed issues and made suggestions relating to ex gratia payments and the single audit principle. The Committee stressed the importance of being consulted before policies that significantly impact on UNFPA business processes and operations are finalized, such as those relating to IPSAS implementation.

17. In 2007, the AAC supported a DOS recommendation that the UNFPA internal control framework be revised to be fully compliant with the Committee of Sponsoring Organizations of the Treadway Commission (COSO) standards. In 2008, the AAC was updated on periodic revisions to the current integrated internal control framework which provides guidance with respect to control and accountability of UNFPA operations particularly at the country level. In view of ongoing changes to UNFPA internal financial and operational policies and practices, and the evolving external environment, additional and ongoing revisions are required to ensure that internal control guidance remains relevant and is fully compliant with COSO.

18. The AAC reviewed the draft UNFPA oversight policy and accountability framework and made recommendations to ensure that the role of the AAC, including its independence, relationship with the Executive Board, and appointment procedures were aligned with leading international practices.

19. In accordance with item 15 of its TOR, the AAC regularly reviews "DOS's function, including its charter, scope, plans, activities, resources, staffing and organizational structure." The AAC recommended approval in principle of the DOS audit plan 2009-2010 and reviewed the DOS business plan 2009. The AAC suggested that in future annual audit plans, additional information could be included to more clearly outline how the plan was prepared and the rationale for proposing the planned level of assurance needed by UNFPA management, the AAC and the Executive Board. The AAC suggested that the plans could be more explicit in demonstrating how proposed engagements support the achievement of UNFPA strategic objectives and provide assurance that appropriate controls are incorporated into UNFPA critical business initiatives and processes. The AAC also believes that DOS could be of assistance in the Fund's new in-process major business initiatives, such as IPSAS, enterprise risk management and restructuring, by being involved in the planning stages. The insights from a DOS perspective in the planning could result in more effective controls and/or operational efficiencies.

20. With respect to the DOS annual audit planning process, the AAC again recommended that the DOS risk model be extended and modified, if necessary, to include headquarters' operations in addition to the current risk universe of country offices and subregional offices.

21. The AAC suggested that more strategic audit performance and reporting may be required of DOS. In this respect, DOS is now focusing on the overall cause of deficiencies or means to address risk exposures, and the number of observations and recommendations are limited to those of a significant nature reducing the reports to a practical length. This should expedite report issuance and support more opportune implementation of audit recommendations; thus demonstrating the value added by DOS in contributing to the improvement of UNFPA operations.

22. Currently, UNFPA management takes full responsibility to ensure actions are taken to implement recommendations from internal oversight reports. The AAC supports UNFPA management's accountability in this respect. However, in accordance with the International Standards for Professional Practice of Internal Auditing, the AAC also recommended that DOS consider a more timely and direct role in internal audit follow-up processes, particularly for significant audit observations or reports considered unsatisfactory. The results of such follow-up activities could help support UNFPA management by providing objective and independent evidence-based assessments respecting the status of management actions to implement recommendations made as a result of UNFPA oversight activities.

23. The AAC also stressed the importance of identifying whether and how DOS resource levels and capacities impact on its ability to implement its charter and provide the level of assurance necessary to

support UNFPA strategic objectives. In this respect, ongoing issues with regard to the adequacy of DOS resources and recruitment challenges have been highlighted to the AAC. The AAC appreciates that there may be internal environmental factors in the recruitment process that are beyond the direct control of DOS. However, it is critical that DOS has the capability needed and resources required to ensure that sufficient coverage exists in internal auditing, evaluation and investigation work at UNFPA, and that suitable succession planning is undertaken. The AAC understands that DOS resource limitations may have contributed to some of the challenges noted by the AAC in paragraphs 19-22.

24. As required by its TOR, the AAC reviewed the UNFPA financial statements for the biennium ended 31 December 2007 prior to their finalization and recommended some revisions to improve the clarity and quality of communication of the financial information. However, it should be noted from item 16 of the AAC TOR that "... it is not the duty of the AAC ... to determine that the UNFPA's financial statements and disclosures are complete and accurate and are in accordance with applicable accounting principles and rules and regulations."

25. With respect to the UNFPA Financial report and audited financial statements for the biennium ended 31 December 2007 and Report of the Board of Auditors (A/63/5/Add.7), the AAC has noted the "modified opinion with one emphasis of matter" along with the observations, recommendations and issues of concern. The emphasis of matter relates to the concern of the Board of Auditors with respect to expenditures incurred through the national execution (NEX) modality. The AAC is briefed regularly on UNFPA actions to implement the recommendations made by the Board of Auditors and supports UNFPA efforts to address the recommendations in a systematic and ongoing manner. The AAC recommended that UNFPA prioritize the implementation of recommendations classified as "high priority", including those relating to programme and project management of nationally executed projects, IPSAS implementation, results-based management and budgeting, and human resource management. The AAC also suggested that, as a best practice, DOS follow up the implementation status of the recommendations of the Board of Auditors. In this way, DOS could add value by supporting UNFPA management in ensuring that the actions taken to address observations are appropriate and complete. In addition, the Board of Auditors might be able to place reliance on the work of DOS and not necessarily perform additional in-depth follow-up work.

26. NEX continues to be an area of high risk. Additional concerns regarding NEX projects were raised during 2008. The AAC recognizes the challenges that UNFPA faces to ensure appropriate accountability for financial and programme results while working under new aid modalities (e.g., sector-wide approaches (SWAps) and the harmonized approach to cash transfers (HACT). The AAC understands that UNFPA senior management has designated national execution as one of its highest priorities. The AAC understands that some of the primary causes of NEX issues relate to the capacity of implementing partners, and administrative practices including programme and financial monitoring by country offices. To address issues of this nature, the AAC understands that internal processes are being put in place to build staff capacity and improve project management and oversight. For example, in January 2008, the AAC recommended that DOS functional responsibility with respect to managing the NEX audit database be evaluated, and that UNFPA programme management be held accountable for this programme activity related to NEX implementation and audit. A full-time NEX programme coordinator was appointed. DOS is now in a position to undertake its role – to independently review and assess the adequacy and effectiveness of the system and processes. In addition, the AAC understands that the UNFPA is working with its implementing partners to strengthen capacity through programme and project design and by enhancing internal controls and accountability. In this respect, the Committee supports the efforts of the UNFPA to strengthen management controls and practices at the local and headquarters levels. By doing so,

management takes direct and full responsibility for improved planning and monitoring processes, and ensures that capacity development issues are addressed, as required.

27. To assist in managing for results, the AAC has suggested that UNFPA management develop and implement a formal integrated enterprise risk management strategy. Various components that could support the strategy currently exist in UNFPA. The AAC recommended that UNFPA integrate those components and develop the additional systems and processes necessary to support and sustain a comprehensive enterprise risk management strategy that would identify and address risk exposures throughout the organization and in its external relationships.

28. Once an integrated enterprise risk management strategy is fully developed and implemented in UNFPA, the AAC will be in a position to appreciate more completely UNFPA mitigation strategies including the Fund's risk appetite and residual risks. The AAC will then be able to contribute more directly to the achievement of UNFPA strategic and business objectives by providing extensive overall strategic advice to the Executive Director on organization-wide risk exposures. Currently, the AAC receives regular briefings by management on specific challenges and issues of concern to UNFPA. In addition, DOS provides information on significant risk issues or deficiencies found through its evaluations, audits and investigations. The AAC looks forward to continuing its dialogue with UNFPA management relating to the integration of mitigation strategies for the specific and discrete issues of concern with those needed for the potential overall and fundamental risks to the organization.

Overall conclusion

29. The AAC has reviewed the report of the Executive Director being submitted to the Executive Board, namely, UNFPA internal audit and oversight activities in 2008 (DP/FPA/2009/5), taken note of the significant oversight issues identified, and concurs with its contents. The AAC appreciates the substantial progress made by UNFPA over the last year in an environment marked by many challenges.

30. The AAC expresses support for the continued strengthening of accountability and assurance processes in UNFPA. The Committee trusts that the strategic advice and recommendations provided to UNFPA management in 2008 contribute to developing and sustaining the appropriate oversight and accountability framework along with the necessary supporting systems and implementing practices.

## ANNEX 3: MANAGEMENT RESPONSE TO THE ANNUAL REPORT OF THE AUDIT ADVISORY COMMITTEE

1. The UNFPA management response to the annual report of the Audit Advisory Committee (AAC) is provided as per decision 2008/37 of the Executive Board. Further information on a number of topics covered in this response can be found in the comprehensive management response to the UNFPA internal audit and oversight activities in 2008, made available on the UNFPA Executive Board website.

2. UNFPA is pleased to acknowledge and welcome the 2008 annual report of the Audit Advisory Committee. In 2008, UNFPA continued to benefit from the interactions with and the recommendations of the AAC. UNFPA would like to thank the chair and members of the AAC for their dedicated, professional work and commitment to assist UNFPA in its efforts to enhance organizational efficiency and effectiveness.

3. UNFPA agrees with the AAC that 2008 was a transformational year with several major and interrelated change management initiatives proceeding at the same time: reorganization, enterprise resource planning (ERP) upgrade, preparations for implementing the International Public Sector Accounting Standards (IPSAS), including a review of the UNFPA financial regulations and rules, and national execution (NEX). Each of these carries its own risks. Furthermore, for each of these initiatives UNFPA is dependent on external partners.

4. Following the advice of the AAC, UNFPA is in the process of developing an enterprise risk management (ERM) strategy that is compliant with the standards of the UNFPA Committee of Sponsoring Organizations of the Treadway Commission (COSO). This will allow UNFPA as a whole, and its component business units, to analyse risks in an integrated, comprehensive way and to put in place risk mitigating mechanisms as needed. UNFPA has tasked the Fund's Executive Coordinator for change management and business continuity with leading this effort. The ERM strategy under preparation with the support of an external consultancy company is expected to be ready by the end of 2009. The ERM strategy takes as its point of departure the previous work on fraud prevention and will use the same methodology to integrate the existing risk management efforts in UNFPA (e.g., fraud prevention, security risk assessments) under one comprehensive framework. Once developed and implemented this will provide management, the UNFPA Division for Oversight Services (DOS) and the AAC with a systematic and comprehensive way to assess and discuss risks and risk mitigation. In parallel with ERM, UNFPA is revising its internal control framework (ICF) to make it fully compliant with COSO standards. This work is ongoing and the revised ICF will be in place by September 2009.

5. The Atlas ERP system is a joint undertaking by UNFPA, UNDP and UNOPS. While the system is jointly governed, UNDP is the Atlas ERP service provider. In 2008, the three organizations prepared for the first major upgrade of the Atlas ERP system since its inception in 2004. UNFPA took active part in the discussions related to the planning for the Atlas upgrade and was informed by UNDP at an early stage that the upgrade process would require a significant period of time (up to two weeks) where staff would not be able to access and complete transactions in the Atlas system. While UNFPA would have preferred a shorter downtime, UNFPA does not intend to seek compensation from UNDP since the Atlas ERP system is a partnership between the three organizations. Also, this type of compensation was not contemplated in the memorandum of understanding (MoU) signed between the agencies, as per the common practice for such MoUs. Nevertheless, UNFPA has brought the recommendation of the AAC to the attention of UNDP senior management.

6. UNFPA, in partnership with UNDP and UNOPS, took a number of measures to reduce the impact of the upgrade process on the organization and a risk mitigation plan was prepared by the partner agencies, including scheduling the upgrade at a time when the number of transactions in Atlas is traditionally low. The upgrade was successful and without major incidents. UNFPA has taken note of the views of the AAC, in particular that a two-week downtime is not typical. Meanwhile, the Fund is continuously engaged with its Atlas partners at all levels to ensure that UNFPA is knowledgeable about issues related to Atlas and the risk exposure that UNFPA has in this area.

7. In 2008, UNFPA benefited from the advice of the AAC on the preparations for the full implementation of IPSAS from 2010 onwards. UNFPA senior management is aware that this is a major change management initiative which has implications for the entire organization. In response to this, UNFPA will have finalized and issued in the second quarter of 2009 an IPSAS implementation plan that addresses both accounting and operational risks and in addition links these efforts with other UNFPA initiatives.

8. As noted above, for implementation of the various change management initiatives, UNFPA is dependent on a number of external partners across the United Nations system. This interdependence ranges from the interpretation of the IPSAS standards and development of training materials and modules, to the preparation of harmonized financial regulation and rules by the United Nations, UNDP, UNFPA, UNICEF and WFP. Regarding changes to Atlas, UNFPA is dependent on its partners UNDP and UNOPS. The UNFPA Division for Oversight Services is also engaged in the work on IPSAS implementation and harmonization of financial regulations and rules. Upon the advice of the AAC, UNFPA has reached out to and engaged the United Nations Board of Auditors with regard to IPSAS implementation. Furthermore, UNFPA is building on the experiences from other organizations that have already implemented IPSAS, for example, WFP.

9. In 2008, the United Nations Board of Auditors issued a modified audit opinion with one matter of emphasis related to national execution on UNFPA 2006-2007 financial statements. In response to this critical issue UNFPA decided to urgently address this matter by establishing a small team headed by an Executive Coordinator to better manage and reduce the Fund's risk exposure in this area. The team is addressing a wide range of issues related to NEX, which is another area where UNFPA is dependent on the support and cooperation of its external partners, in particular the national partners that implement UNFPA-funded programmes.

10. The most significant change management initiative in 2008 was the Fund's reorganization. The significant logistical challenges related to the selection and deployment of staff and the preparation for the establishment of and the physical move to the regional and subregional office locations have been effectively managed. UNFPA management agrees with the importance of comprehensive succession planning and workforce planning as part of organizational change management and restructuring. A succession planning strategy has been developed and is now implemented within UNFPA. Continued high priority is given to the human dimensions of the change process as well as to business continuity and this is being closely monitored by an organization-wide steering committee as well as the Executive Coordinator for change management and business continuity. Further clarity about roles and responsibilities among the headquarters, regional and subregional and country levels is developed as a key dimension of the regional planning meetings of early 2009.

11. Regarding the internal audit function, audit planning is very comprehensive involving the UNFPA senior management, the Audit Advisory Committee and the United Nations Board of Auditors. It is based on a statistical model that has been supported by the Executive Board as a reliable way to assess the risk universe of UNFPA. The model that currently focuses on decentralized business units (country and regional offices) is being reviewed to include horizontal and cross-cutting functions at all levels of UNFPA. DOS adheres to the international standards for the professional practice of internal auditing of the Institute of Internal Auditors. DOS strives to maintain a fine balance between independence and objectivity and adding value to business processes through consulting services to management. In this respect, to avoid any potential conflict of interest, DOS will continue to proceed with caution when it is requested to be involved in change management, even at an early planning stage.

12. The follow-up of recommendations from either internal or external audits is primarily the responsibility of management. During its engagements, DOS systematically monitors the reliability of reporting on audit recommendations by management and regularly informs all concerned parties about the status of recommendations and any discrepancies when identified.